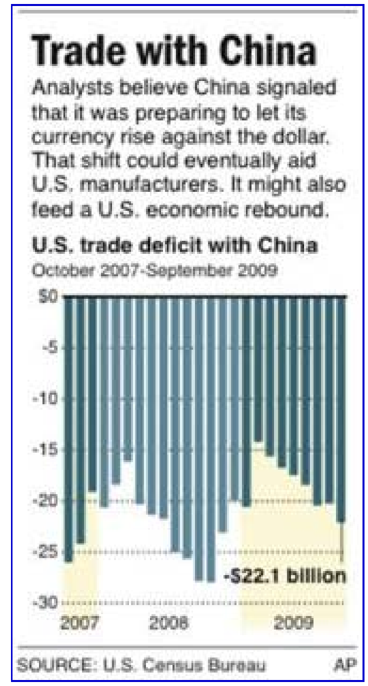
# Obama unlikely to push China hard on currency

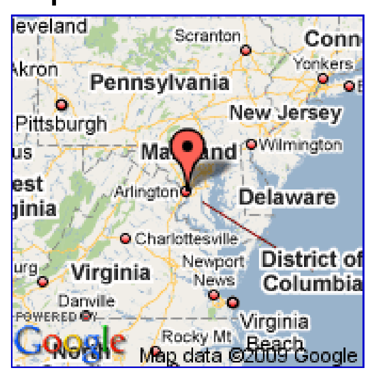
By MARTIN CRUTSINGER (AP) – 4 days ago






Graphic shows the monthly U.S. trade deficit with China over the past three years

## Map




WASHINGTON — In his visit to Beijing this week, President Barack Obama is expected to tread lightly when pressing China to let its currency rise against the dollar.

Doing so would benefit the U.S. economy by making American-made goods cheaper in China, but Obama is reluctant to upset Beijing.

China is the No. 1 lender to the U.S. at a time when the latest annual budget deficit hit a record $1.42 trillion. That makes for a lot of Treasurys to be sold. China has expressed concerns that the falling dollar threatens the value of its existing U.S. holdings.

The United States also needs China's help in dealing with foreign policy threats. Those include curbing the nuclear ambitions of North Korea and Iran.

There's another reason for a gentler U.S. stance: Analysts believe China already signaled last week that it was preparing to let its currency rise against the dollar. That shift could eventually aid U.S. manufacturers. It might also feed a U.S. economic rebound.

But China is also applying some pressure on the U.S. about its currency.

On Sunday, China's top bank regulator said the weak dollar and low interest rates were distorting global asset prices and posing an "insurmountable risk to the recovery of the world economy," according to a transcript of a speech he made at a financial forum in Beijing.

The regulator, Liu Mingkang, said the declining dollar and low interest rates were encouraging a "massive" U.S. dollar carry trade — the practice of borrowing money at low rates in one currency to invest in assets in another currency that offer a higher return.

Analysts say China will likely wait months before tweaking the yuan-dollar exchange rate, which now stands at about 6.8 yuan to the dollar. Beijing doesn't want to appear to be bowing to U.S. pressure. Even then, it will take time for the U.S. to benefit.

Mark Zandi, chief economist at Moody's Economy.com, says he expects the Chinese to begin allowing the yuan to rise against the dollar by next spring, at a rate of about 5 percent a year.

At that pace, it would take until around 2015 for the two currencies to be in balance — a process Zandi said could help narrow the U.S. trade gap with China, which last year hit $268 billion.

U.S. manufacturers won't likely be satisfied. They want the administration to push Beijing to raise the yuan's value further and faster. Their exports have been hurt by China's move last year to peg the yuan to the dollar. They contend the yuan is undervalued by up to 40 percent.

From 2005 to 2008, the Chinese had allowed the yuan to rise about 20 percent against the dollar. It started pegging its currency to the dollar in mid-2008, once the global recession began hurting China's exports.

Normally, a low dollar would make U.S. goods cheaper for hundreds of millions of Chinese consumers. But since the Chinese have kept the yuan tightly linked to the dollar, U.S. exporters haven't been able to capitalize.

"Obama will raise the currency issue (during his visit), but he is in no position to push the Chinese simply because he lacks any levers to make the Chinese do something they do not want to do," said Eswar Prasad, an economist at Cornell University and senior fellow at the Brookings Institution.

China's central bank made its subtle yet surprising shift in the wording of its exchange-rate policy on Thursday. In the arcane language that governs the $3-trillion-a-day currency markets, many analysts read the shift as a signal that Beijing was getting ready to let the yuan resume rising against the dollar.

The dollar has been sliding in value against many major currencies. U.S. exports to Europe have benefited, because the dollar has fallen about 18 percent against the euro since early March.

And since the Chinese have linked their currency to the dollar, the dollar's fall has benefited them, too. It's made Chinese products cheaper in Europe and elsewhere where currencies have risen against the dollar. If Beijing let the yuan rise, those Chinese goods would become more expensive.

For now, a weak yuan isn't all bad for the U.S. It's meant a break for American consumers and retailers, such as Wal-Mart, that buy goods imported from China.

But many countries have complained about the weaker dollar and China's close link to it. Some, such as Thailand, South Korea and Russia, have sought to stem the dollar's rise against their currencies by buying dollars.

American manufacturing groups blame the low yuan for contributing to the loss of 5.6 million manufacturing jobs in the past decade. During that time, America's trade gap with China has soared.

"The rising trade deficit is an ominous sign for an economic recovery anytime soon," Scott Paul of the Alliance for American Manufacturing said after the government reported Friday that the deficit with China jumped sharply in September.

The issue has riled some on Capitol Hill at a time when the U.S. unemployment rate has hit a 26-year high of 10.2 percent and lawmakers are under pressure to help create jobs. Legislation in the House and Senate would allow for tariffs on Chinese goods if Beijing's currency policies don't change.

Treasury Secretary Timothy Geithner, at the Asia-Pacific Economic Cooperation finance meetings in Singapore last week, repeated his mantra that "it's very important to the United States that we have a strong dollar."

The administration has done nothing to halt the dollar's slide. Some have seen that as a signal that the U.S. feels a weak dollar relative to major currencies, other than the yuan, helps U.S. exports.

But with the United States reliant on foreigners to finance nearly $8 trillion in publicly held debt, it can't openly back a weaker dollar. Doing so would cause investors to dump dollars. The dollar would sink, U.S. interest rates would likely surge and the fledgling U.S. economic recovery could risk collapse.

Many economists contend that even if China let its currency rise sharply against the dollar, Beijing would still enjoy trade advantages. Those include its low-wage work force and barriers it's erected to limit imports of U.S. and other foreign-made goods.

Other factors contribute to the trade gap. China is a high-saving country. It relies on exports to power growth. By contrast, U.S. consumers have driven global growth for decades with high spending and low savings.

"Achieving global balance sounds great in theory, but there are a lot of skeptics out there who wonder what the enforcement mechanism will be," said Nicholas Lardy, an economist at the Peterson Institute for International Economics in Washington.

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